

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name BRANCH COUNTY MENTAL HEALTH AUTHORITY	County BRANCH
Audit Date 9/30/05	Opinion Date 1/11/06	Date Accountant Report Submitted to State: 1/20/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) RUMSEY & WATKINS, P.C.			
Street Address 20 TIBBITS PLAZA		City COLDWATER	State MI
Accountant Signature <i>Rumsey & Watkins, P.C.</i>		ZIP 49036	Date 1/20/2006

CONTENTS

	<u>Page</u>
Report Letter	1-2
Management's Discussion and Analysis	3-5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	8
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	9
Statement of Revenues, Expenditures, and Changes in Fund Balance	10
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balance of Governmental Funds to the Statements of Activities	11
Proprietary Funds:	
Statement of Net Assets	12
Statement of Revenues, Expenses, and Changes in Net Assets	13
Statement of Cash Flows	14
Fiduciary Funds:	
Statement of Net Assets	15
Notes to Financial Statements	16-26
Required Supplemental Information	
Budgetary Comparison Schedule	27
Other Supplemental Information	
Balance Sheets	28
Statements of Revenues and Expenditures	29
Statements of Expenditures	30

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

20 Tibbits Plaza • Coldwater, Michigan 49036

Phone (517) 279-7931 • FAX (517) 278-7087

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Branch County Community Mental
Health Authority
Branch County, Michigan**

January 11, 2006

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Branch County Community Mental Health Authority as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Branch County Community Mental Health Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, of the Branch County Community Mental Health Authority as of September 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**Board of Directors
Branch County Community Mental
Health Authority
Branch County, Michigan**

January 11, 2006

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch County Community Mental Health Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Authority adopted Governmental Accounting Standards Board Statement Number 40 during the current year. As a result, these financial statements present new financial information within the financial statement footnotes related to deposits and investments.


RUMSEY & WATKINS, P.C.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Branch County Community Mental Health Authority presents the following overview and analysis of financial activities during the past fiscal year. Branch County Community Mental Health Authority was created as a Mental Health Authority effective October 1, 2001.

Overview of Financial Statements

Two types of financial statements are provided: Government-wide and Fund financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of Authority's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Branch County Community Mental Health Authority, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds/General Fund has a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary Fund is an internal service fund which is held as a self-insurance against future risk. This fund consists of State of Michigan General Funds and accumulated interest and must be held for future risk or used to provide authorized services to eligible persons.

Fiduciary Fund is a fund held by the Authority in a trustee capacity or as an agent for the other funds of governments. The Authority uses this fund to accumulate funds for payment of compensated absences.

**BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

Comparison with Prior Year

Fiscal year 2004 revenues were \$9,074,793 compared to fiscal year 2005 revenues of \$9,060,331, an overall decrease in 2005 of \$14,461. This difference was mainly attributed to the fact that during fiscal year 2005, \$163,564 additional Department of Community Health funds were earned, offset by a decrease of \$158,727 in Medicaid funds earned. Additionally, a decrease in earned Contract revenues was offset by an increase in Patient and Insurance collections. Fiscal year 2004 expenses of \$8,954,499 compared to fiscal year 2005 expenses of \$8,893,899 represent a decrease overall in 2005 expenditures by \$60,600. This difference was mainly attributed to a \$211,866 decrease in Specialized Residential, Inpatient, and Community Support services. This was offset by increases in Case management, Outpatient, Home Based, Family Support Services, and Administration.

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	Balance 09/30/04	Balance 09/30/05	Increase (Decrease)
Internal Service Funds	\$ 138,882	\$ 129,597	\$ (9,285)
General Fund:			
Fund Balance - Undesignated	<u>1,113,935</u>	<u>1,280,368</u>	<u>166,433</u>
Total Fund Balance	<u>\$ 1,252,817</u>	<u>\$ 1,409,965</u>	<u>\$ 157,148</u>

The Internal Service Funds together with the unrestricted fund balance of the General Funds represent an estimated 90 days of operations based on daily operational needs.

Analysis of differences Between Budgeted Original and Final Amounts Compared to Actual

Over the course of the year, The Authority revises the budget as it attempts to deal with unexpected changes in revenues and expenditures. An original budget was adopted in the first quarter of the fiscal year and changes were made throughout the year. A final budget was adopted before year end and both budgets are reflected in this report.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

About Fiscal Year 2005

Fiscal year 2005 was a year of continuing challenges and changes for the Authority as a member of a five county affiliation called Venture Behavioral Health, consisting of Barry, Berrien, Branch, Calhoun, and Van Buren counties. This membership was mandated by the state of Michigan for the distribution of Medicaid funding and was driven by Medicaid covered lives. Any county with less than 20,000 covered lives was forced to join with other counties in order to receive Medicaid monies. While Branch County Community Mental Health Authority receives Medicaid dollars through this Prepaid Inpatient Health Plan (PIHP) configuration, General Fund operations remain unchanged.

The Authority again participated in a local match program to draw down additional Medicaid funding. This was a contract mandated program. Participation in this program required a local match amount of \$110,459, the amount of local match required for 100% Medicaid services in fiscal year ended 2002.

The Authority remained conservative in spending in fiscal year 2005 due to the ongoing threat of impending budget reductions. This conservative stance has been a part of the Authority's culture on an ongoing basis. Additional staff hired in 2004, in the areas of Case management, Home Based services, and Administration were retained to meet the increasing need of Branch County Medicaid clients, as well as increased reporting/managed care functions required by the Department of Community Mental Health. Fortunately, without reductions in General Fund and Medicaid revenue during 2005, services and operations remained unchanged.

About the Future

The State of Michigan is still in the process of rebasing their funding allocation method for Medicaid. General Fund dollars are also being scrutinized and revised at this time. It is currently unknown how further cuts and these funding stream revisions will affect the Authority. Therefore, we continue to operate very modestly. Client services are of the utmost priority as we continue to look for ways to decrease expenditures. Fiscal year 2006 will also be a challenging year as changes in revenues continue to threaten operations.

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 2,041,877
Receivables:	
Accounts receivable	91,942
Accrued interest receivable	13,016
Due from contract agencies	112,075
Due from State of Michigan	11,435
Due from other governmental units	67,217
Prepaid expenses	113,850
Capital assets, less accumulated depreciation of \$392,537	<u>62,050</u>
 Total assets	 2,513,462
LIABILITIES	
Accounts payable	170,211
Due to the State of Michigan	176,948
Due to Venture Behavioral Health	22,672
Due to contract agencies	290,756
Accrued expenses	175,201
Deferred revenue	205,659
Long term liabilities:	
Compensated absences	<u>184,472</u>
 Total liabilities	 1,225,919
NET ASSETS	
Investment in capital assets	62,050
Unrestricted	<u>1,225,493</u>
 Total net assets	 <u><u>\$ 1,287,543</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating / Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities				
Health & Welfare - Mental Health	<u>\$ 8,954,051</u>	<u>\$ 7,168,991</u>	<u>\$ 274,944</u>	<u>\$ (1,510,116)</u>
General revenues:				
				1,560,685
				49,553
				<u>19,294</u>
				<u>1,629,532</u>
				119,416
				<u>1,168,127</u>
				<u>\$ 1,287,543</u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2005**

	Governmental Fund Types
ASSETS	
Cash and investments	\$ 1,920,272
Accounts receivable	91,942
Due from contract agencies	112,075
Due from State of Michigan	11,435
Due from other governmental units	67,217
Accrued interest receivable	11,024
Prepaid expenses	113,850
	<hr/>
Total assets	<u>\$ 2,327,815</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 170,211
Due to State of Michigan	176,948
Due to Venture Behavioral Health	22,672
Due to contract agencies	290,756
Due to other funds	6,000
Accrued expenses	175,201
Deferred revenue	205,659
	<hr/>
Total liabilities	1,047,447
FUND BALANCE	
Undesignated	<u>1,280,368</u>
Total liabilities and fund balance	<u>\$ 2,327,815</u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**
GOVERNMENTAL FUNDS
RECONCILATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
SEPTEMBER 30, 2005

Total Fund Balance - Governmental Funds **\$ 1,280,368**

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in funds:

The cost of the capital assets	454,587
Accumulated depreciation	<u>(392,537)</u>

Total capital assets not reported in funds	62,050
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An internal service fund is used by management to accumulate
resources for the shared risk arrangement with the State
of Michigan for future mandated services. The assets and
liabilities of the internal service fund are included in governmental
activities in the statement of net assets:

Net assets of governmental activities accounted for in the internal service fund	129,597
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Long-term liabilities are not due and payable in the current period
and are not reported in the governmental funds:

Compensated absences	<u>(184,472)</u>
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Total Net Assets - Governmental activities **\$ 1,287,543**

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

GOVERNMENTAL FUNDS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Governmental Fund
REVENUES	
Local sources	\$ 1,123,013
State sources	<u>7,937,319</u>
Total revenues	9,060,332
EXPENDITURES	
Mental Health	8,807,070
Capital outlay	<u>86,829</u>
Total expenditures	<u>8,893,899</u>
Excess of revenues over expenditures	166,433
FUND BALANCE - BEGINNING	<u>1,113,935</u>
FUND BALANCE - ENDING	<u><u>\$ 1,280,368</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Net change in Fund Balance - Total Governmental Funds	\$ 166,433
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(19,653)
Capital outlay	86,829
Non-depreciable capital outlay	(63,329)
Loss on disposal of an asset	<u>(28,875)</u>
Total	(25,028)
An internal service fund is used by management to accumulate resources for the shared risk arrangement with the State of Michigan for future mandated services. The net revenue (expense) of the internal service fund are included in governmental activities in the statement of net assets:	
	(9,285)
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds in accordance with GASB Interpretation No. 6:	
	<u>(12,704)</u>
Change in Net Assets of Governmental Activities	<u>\$ 119,416</u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Cash and investments	\$ 121,605
Due from other funds	6,000
Accrued interest receivable	<u>1,992</u>
Total assets	129,597
LIABILITIES	<u>-</u>
NET ASSETS	
Unrestricted	<u><u>\$ 129,597</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	Governmental Activities Internal Service Fund
NONOPERATING REVENUES (EXPENSES)	
Interest earned	\$ 6,323
Miscellaneous income	4,139
Shared managed risk contribution	6,360
Unrealized gains (loss) on investments	(3,687)
Investment fees	(360)
Shared managed risk rebated	<u>(22,060)</u>
Total nonoperating revenues (expenses)	<u>(9,285)</u>
CHANGE IN NET ASSETS	(9,285)
NET ASSETS - BEGINNING	<u>138,882</u>
NET ASSETS - ENDING	<u><u>\$ 129,597</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Earnings from operations	\$ -
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:	
Shared managed risk rebated	(35,424)
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest received	6,316
Sale of investments	<u>49,000</u>
Net cash provided by investing activities	<u>55,316</u>
NET INCREASE IN CASH	19,892
CASH - BEGINNING	<u>620</u>
CASH - ENDING	<u><u>\$ 20,512</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005**

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 184,472</u>
LIABILITIES	
Accrued expenses	<u>\$ 184,472</u>

See Notes to Financial Statements

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The Branch County Community Mental Health Authority provides services under the name of Pines Behavioral Health Services. The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America as applicable to local governmental units. The following is a summary of significant policies:

REPORTING ENTITY:

On October 1, 2001, the Authority was established under MCL 330.1205, Section 205. The Authority has the responsibility of providing mental health services to the local residents of Branch County.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants, who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary and Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

GOVERNMENTAL FUNDS

General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

PROPRIETARY FUND

Internal Service Fund is an unbudgeted fund for the shared risk arrangement with the State of Michigan for future mandated services.

FIDUCIARY FUNDS

Agency Fund is used to account for assets held by the Authority in a trustee capacity or as an agent for the other funds of governments. The Agency Fund is custodial in nature, assets equal liabilities, and do not involve the measurement of results of operations. The Authority established the Agency Fund to accumulate funds for the future payment of compensated absences.

ASSETS, LIABILITIES, AND NET ASSETS

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Trade receivables are shown net of an allowance for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in government-wide and fund financial statements.

Inventories – The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities do not fluctuate from year to year. The cost of supplies are expensed when purchased.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, AND NET ASSETS – Continued

Capital Assets – Capital assets, which include furniture, fixtures and computers, are reported in the applicable governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Authority does not have infrastructure-type assets.

Furniture, fixtures and computers are depreciated using the straight-line method over the following useful lives:

Furniture and fixtures	5-10 Years
Computers	5 Years

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which amounts for employees who are currently eligible to receive termination payments are included.

Comparative Data/Reclassifications – Comparative data is included in the Authority's Management Discussion and Analysis and Supplemental Information.

BASIS OF BUDGETING:

The Authority adopted their annual budget based on the modified accrual method of accounting. Revenues and expenditures were adopted and amended by the Board by the functional level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by law. The Board did not include a beginning fund balance within the approved budget. Amendments were made to the budget during the year.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

NOTE B – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Authority uses financial institutions and their trust department for cash and investment purposes, which is in accordance with statutory authority. The accounts maintained are checking, savings, certificates of deposit and U.S. Government Obligations. The Authority uses a pooled money market account for the General and Fiduciary Funds. The respective transactions are accounted for separately within the proper fund.

As of September 30, 2005, the pooled money market account is as follows:

General Fund	\$ 308,440
Fiduciary Fund	<u>184,472</u>
Total pooled money market account	<u><u>\$ 492,912</u></u>

The Authority also holds a money market account in the Internal Service Fund, in the amount of \$20,512.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2005

NOTE B – DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2005, the Authority had the following investments excluding the investments in money market funds:

Investment	Amount	Maturity Date
FHLB Note	\$ 148,922	March 15, 2006
FNMA Bond	150,000	October 15, 2006
FNMA Bond	50,000	October 15, 2006
FHLB Bond	149,109	April 20, 2007
FHLB Bond	51,094	November 14, 2008
FHLB Bond	153,281	November 14, 2008
Total	<u>\$ 702,406</u>	

The Authority also had a certificate of deposit in the amount of \$150,000 with an interest rate of 3.5% with a maturity date of October 30, 2005.

Interest rate risk – In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Authority does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk (deposits) – In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be recovered. As of September 30, 2005, \$1,360,139 of the Authority's bank balance of \$1,460,139 was exposed to custodial credit risk because it was uninsured and uncollateralized.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE B – DEPOSITS AND INVESTMENTS - Continued

Custodial credit risk (investments) – For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business.

NOTE C – ACCOUNTS RECEIVABLE

The Authority allows their patients, who predominantly reside in the County of Branch, to charge their portion of fees for services. As of September 30, 2005, patient accounts receivable amounted to \$11,469.

For patients that have medicare and private insurance, the Authority bills the appropriate agencies for their portion of the services. As of September 30, 2005, medicare and private insurance accounts receivable amounted to \$80,473.

NOTE D – DUE TO STATE OF MICHIGAN

The Authority entered into a managed mental health supports and services contract with the Department of Community Health, a department of the State of Michigan, to provide mental health services to the residents of Branch County and for the funding of costs incurred for county residents in state facilities.

The Authority was funded by the State of Michigan for the net matchable costs incurred in providing mental health services to the residents of Branch County. The entitlement earned under the contract was \$1,562,912 in 2005. As of September 30, 2005, \$176,948 was due to the State of Michigan, which represents the excess funds received over the amount earned under the contracts for 2005.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE E – DUE TO VENTURE BEHAVIORAL HEALTH

In years prior to fiscal year 2003, the State of Michigan contracted directly with each county's mental health agency for Medicaid managed specialty support and services. Beginning in the fiscal year 2003, the State of Michigan separated the state into regions and bid the contracts for these services.

The Authority formed an affiliation under the Intergovernmental Agreement for the Transfers and Responsibilities Act (IFTRA) with other Community Mental Health Authority's. The affiliation named Venture Behavioral Health was successful in acquiring the Medicaid managed specialty support and services contract with the State of Michigan.

Venture Behavioral Health funded the Authority for the net matchable costs incurred in providing Medicaid managed specialty support and services to the residents of Branch County. The revenue earned was \$6,281,192 for the year ended September 30, 2005. As of September 30, 2005, \$22,672 was due to Venture Behavioral Health, which represents the excess funds, advanced over the amount earned during the year ended September, 30, 2005.

NOTE F– DUE FROM (TO) OTHER FUNDS

Interfund receivables/payables, as of September 30, 2005, are as follows:

Internal Service Fund:

Due from General Fund

\$ 6,000

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005****NOTE G – CAPITAL ASSETS**

Capital asset activity of the Authority's governmental activities was as follows:

	Balance 10/01/04	Additions	Disposals	Balance 09/30/05
GROUP:				
Furniture and fixtures	\$ 260,671	\$ 23,500	\$ 29,630	\$ 254,541
Computers	231,546	-	31,500	200,046
Subtotal	492,217	23,500	61,130	454,587
ACCUMULATED DEPRECIATION:				
Furniture and fixtures	239,146	6,113	29,630	215,629
Computers	165,993	13,540	2,625	176,908
Total accumulated depreciation	405,139	19,653	32,255	392,537
Net Capital Assets	<u>\$ 87,078</u>	<u>\$ 3,847</u>	<u>\$ 28,875</u>	<u>\$ 62,050</u>

Depreciation expense was charged to activities of the Authority as follows:

GOVERNMENTAL ACTIVITIES:

Health & Welfare - Mental Health	<u>\$ 19,653</u>
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NOTE H – DEFERRED REVENUE

The Authority entered into a grant with the State of Michigan for local funding under Public Act 423. As of September 30, 2005, \$91,942 was estimated as receivable from insurance companies, Medicare and clients for charges for services. These charges, if collected, would have been included in the formula under the grant provisions and, therefore, are being deferred until collected.

Under the terms of the contract with the Department of Community Health, the Authority is allowed to carryover unexpended state revenue up to 5 percent of the Authority's state share of their operating budget. As of September 30, 2005, \$78,612 was recorded as deferred revenue.

The Authority has received \$35,105 under other various grants agreements which will be expended in future years and is recorded as deferred revenue as of September 30, 2005.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE I – COMPENSATED ABSENCES

The Authority allows employees to accumulate annual and sick leave days based on their contracts. The accumulated compensated absences represent the estimated liability to be paid to the employees under the various contracts. The Authority has established the agency fund for the accumulation of funding for the payments of these benefits.

NOTE J – LEASE AGREEMENTS

The Authority has two noncancellable leases for office facilities with the County of Branch. One lease, which expires December, 2010, is to be paid in monthly installments which vary according to the lease agreement. The current payment is \$4,423 per month. The other building lease, which expires March, 2011, is to be paid in monthly installments of \$3,173.

The Authority has two noncancellable leases for building facilities with the State of Michigan. The leases, which expire July, 2010 and November, 2012, are to be paid in monthly installments of \$2,138 and \$1,975, respectively.

The following is a schedule by years of future minimum payments required under the lease agreements:

Year ending September 30 :

2006	\$ 139,884
2007	138,574
2008	139,655
2009	138,965
2010	136,450
2011 and after	<u>83,816</u>
Total lease payments	<u>\$ 777,344</u>

Total rental expense included in the excess of revenues over expenditures amounted to \$123,338 for the year ended September 30, 2005.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

NOTE K – RETIREMENT PROGRAM

The Authority maintains a 401(k) plan, and is administered by a financial institution's trust department. Plan provisions are established or amended by Board resolution. Under the plan, employees may elect to defer a portion of their wages, subject to Internal Revenue Service limits. The Authority contributes a match of 50% of the employee deferral up to the maximum of 5% of wages. The Authority may make discretionary contributions. For the year ended September 30, 2005, actual contributions by the Authority and plan participants amounted to \$93,222 and \$101,037, respectively.

NOTE L – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Authority has purchased commercial insurance for the coverage of the above discussed events.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 1,189,063	\$ 1,240,614	\$ 1,123,013
State sources	8,450,669	8,491,163	7,937,319
Total revenues	9,639,732	9,731,777	9,060,332
EXPENDITURES			
Mental health	9,584,732	9,676,777	8,807,070
Capital outlay	55,000	55,000	86,829
Total expenditures	9,639,732	9,731,777	8,893,899
Excess of revenues over expenditures	-	-	166,433
FUND BALANCE - BEGINNING	-	-	1,113,935
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,280,368</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
BALANCE SHEETS

	September 30,	
	2005	2004
ASSETS		
Cash and investments	\$ 1,920,272	\$ 1,949,319
Accounts receivable	91,942	58,649
Due from contract agencies	112,075	99,123
Due from State of Michigan	11,435	10,880
Due from other governmental units	67,217	112,853
Due from other funds	-	13,365
Accrued interest receivable	11,024	7,910
Prepaid expenses	113,850	101,577
	<u>113,850</u>	<u>101,577</u>
Total assets	<u>\$ 2,327,815</u>	<u>\$ 2,353,676</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 170,211	\$ 169,872
Due to State of Michigan	176,948	333,457
Due to Venture Behavioral Health	22,672	81,946
Due to contract agencies	290,756	310,185
Due to other funds	6,000	-
Accrued expenses	175,201	156,941
Deferred revenue	205,659	187,340
	<u>205,659</u>	<u>187,340</u>
Total liabilities	1,047,447	1,239,741
FUND BALANCE		
Undesignated	<u>1,280,368</u>	<u>1,113,935</u>
Total liabilities and fund balance	<u>\$ 2,327,815</u>	<u>\$ 2,353,676</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENTS OF REVENUES AND EXPENDITURES

	Year Ended September 30,	
	2005	2004
REVENUES		
Local revenue:		
Contract agencies	\$ 693,736	\$ 751,784
County allocation	180,000	180,000
Patient and insurance services	131,426	104,767
Prevention program	53,755	63,976
Interest earned	58,446	45,942
Unrealized loss on investments	(11,530)	(14,390)
Other	17,180	14,327
State revenue:		
Department of Community Health	1,562,912	1,399,348
Specialty managed care services	6,281,192	6,439,919
Area agency grant	27,526	29,633
Family Independence Agency	43,766	39,269
OBRA evaluation fees	18,198	16,493
Title XX replacement	3,725	3,725
Total revenues	<u>9,060,332</u>	<u>9,074,793</u>
EXPENDITURES		
Client service management	477,912	426,543
Agency operations	571,013	609,398
Inpatient services	241,978	258,660
Outpatient services	1,235,239	1,125,470
Community support services	1,220,094	1,250,958
OBRA active treatment	58,379	43,275
Institutional care	78,327	125,908
Specialized residential services	2,961,767	3,126,087
Prevention grant	107,506	127,951
CHC Behavioral health services	537,483	543,145
Family support services	99,102	113,225
Assertive community treatment	217,458	210,248
Board administration	923,286	860,884
Home based services	53,896	22,288
Medicaid local funds	110,459	110,459
Total expenditures	<u>8,893,899</u>	<u>8,954,499</u>
Excess revenues over expenditures	<u>\$ 166,433</u>	<u>\$ 120,294</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENTS OF EXPENDITURES

	Year Ended September 30,	
	2005	2004
Salaries	\$ 2,500,892	\$ 2,422,508
Pension	93,222	92,757
Employee insurance	420,156	343,540
Payroll taxes	176,403	170,779
Unemployment benefits	18,010	-
Workers compensation	14,172	21,848
Office supplies	22,773	32,185
Operating supplies	18,478	43,005
Medical supplies	62,220	13,751
Board per diem	9,675	9,250
Membership and dues	13,381	12,779
Community support services	1,143,029	1,255,817
Inpatient services	320,305	384,569
Residential services	2,910,626	3,045,157
Clinical services	46,143	8,820
Waiver aide services	20,304	15,338
Community waiver	39,644	38,349
Respite	61,320	65,597
Professional services	301,241	281,005
Telephone	39,481	37,803
Education and workshops	16,723	10,207
Travel	73,330	54,594
Printing and publishing	17,077	20,824
Insurance and bonds	99,788	120,357
Utilities	26,337	25,741
Repairs and maintenance	65,028	60,591
Lease expense	123,338	189,314
Management fees	10,667	4,280
Miscellaneous	4,084	13,204
Public relations	9,699	9,755
Equipment	86,829	31,500
Shared managed risk contribution	6,360	-
Medicaid local funds	110,459	110,459
Compensated absences contribution	12,705	8,816
Total expenditures	<u>\$ 8,893,899</u>	<u>\$ 8,954,499</u>